Report of the Auditor-General

Drakenstein Municipality

For the year ended 30 June 2011

Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

AUDITOR-GENERAL
SOUTH AFRICA

The Chief Financial Officer
Drakenstein Municipality
Mr Hennie Barnard
P O Box 1
PAARL
7622

30 November 2011

Reference: 21424REG10-11

Dear Mr Barnard

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Drakenstein Municipality for the year ended 30 June 2011

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South African (MFMA).

2. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.

3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.

4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:

   - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

   - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

5. Over and above the normal distribution of your annual report, five (5) copies must be submitted to the Auditor-General for attention Mr Gavin van der Hoven: Stakeholder Liaison Manager.

Postal address: The Auditor-General of South Africa
Private Bag X1
CHEMPET
7442

Delivery address: The Auditor-General of South Africa
Business Connexion Building
East Block, 1st Floor
Century Boulevard
CENTURY CITY

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Marion Veldtman
Acting Senior Manager

Enquiries: Marion Veldtman
Telephone: (021) 528 4100
Fax: (021) 528 4200
E-mail: MarionV@agsa.co.za

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON DRAKENSTEIN MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Drakenstein Municipality which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, and the as set out on pages 33 to 72.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in Government Gazette *33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Drakenstein Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties

9. With reference to note 49 to the financial statements, a possibility exists that claims may be instituted against the municipality for losses suffered when their buildings were damaged by a fire. The ultimate outcome of the matter could not be determined at year end, and no provision for any liability that may result has been made in the financial statements.

Material losses

10. As disclosed in note 29 to the financial statements the municipality incurred material losses of R60 059 161 due to the write-off of irrecoverable consumer debtors.

Restatement of corresponding figures

11. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during the 2010-11 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2010.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

13. No material inconsistencies between the draft annual report and financial statements were identified. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

Unaudited supplementary schedules

14. The supplementary information set out on pages 73 to 82 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages xx to xx and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

16. The actual performance reported against 28 out of 91 targets is not consistent with the annual performance report submitted for audit as a result of subsequent changes. Supporting documentation for the changes could not be provided timely to confirm accuracy, completeness and validity thereof.

Presentation of information

17. The reported performance against predetermined objectives was deficient in respect of the following criteria:

    - Performance against predetermined objectives was not reported using the National Treasury guidelines.

18. The following audit finding is relevant to the above criteria:

    - For 100% of targets where the municipality did not achieve the planned target, the municipality did not disclose any measures to improve the performance.

Reliability of information

19. The reported performance information was deficient in respect of the following criteria :

    - Validity: The reported performance did not occur and does not pertain to the entity
    - Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately
    - Completeness: All actual results and events that should have been recorded have not been included in the reported performance information

20. The following audit finding is relevant to the above criteria:

    - For the selected objectives, 39% of the reported targets were not valid, accurate or complete based on the source information or evidence provided.

Compliance with laws and regulations

Financial statements

21. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of capital assets and expenditure identified by the auditors were subsequently corrected by management.

Strategic planning and performance management

22. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining roles of the different role players as required by section 38, 39, 40 and 41 of the MSA read with regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Expenditure management

23. The accounting officer did not take reasonable steps to prevent the irregular expenditure disclosed in note 43 to the financial statements, as required by section 62(1)(d) of the Municipal Finance Management Act.

Procurement and contract management

24. Awards were made to providers who are persons in service of other state institutions or whose directors are persons in service of other state institutions in contravention of the requirements of Municipal Supply Chain Management (SCM) Regulations (GNR. 868 of 30 May 2005), regulation 44. Furthermore the provider failed to declare that they are in the service of the state as required by SCM regulation 13(c).

25. Sufficient appropriate audit evidence could not be obtained that contracts to the value of R653 892 was procured in accordance with legislative requirements and the SCM policy.

INTERNAL CONTROL

In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

26. Leadership did not create an environment where quality is understood by all to ensure that the predetermined objectives are in accordance with the required framework and that reporting on the objectives is valid, accurate and complete.

27. Roles and responsibilities were not assigned to ensure accountability by the municipal manager or a delegated executive director for the reporting on predetermined objectives, including compliance with the required framework.

28. The accounting officer did not exercise oversight to ensure that management had met their responsibilities in terms of the review of the report on predetermined objectives and the overall controls in the process of compiling this report.

29. Appropriate action was not taken by the municipal manager after the quarterly internal audit reports were submitted on the report on predetermined objectives. The recommendations made to the municipality by the audit committee to ensure that the matters identified by internal audit are addressed were not implemented by the municipal manager.

30. Appropriate action was not taken by the municipal manager and the chief financial officer to ensure that deficiencies identified in the policies and procedures to prevent irregular expenditure during the prior year audit were addressed. The policies and procedures do not adequately address the process of identifying irregular expenditure by assigning responsibility and addressing related corrective measures in instances where irregular expenditure was identified.

Financial and performance management

31. It was identified by management that the information system used for the reporting of predetermined objectives was providing inaccurate reports. Management did not take action to correct these reports prior to the submission of the report for audit purposes.

32. Management did not take accountability for the report of predetermined objectives and therefore did not adequately respond to the matters raised by the audit committee and internal audit.

33. Management did not implement a system to ensure that the compliance checklist that was implemented was rolled out across all directorates of the municipality.

Governance

34. There was a lack of effective communication between the internal audit unit and the municipal manager to ensure timely follow-up of matters identified in the quarterly internal audit reports on the report on predetermined objectives.

35. The audit committee did not take effective steps to ensure that financial and performance information presented to them for review was credible through the use of the internal audit function.

36. The audit committee did not adequately follow-up on commitments from the municipality to address deficiencies and commitments from internal audit for timely finalisation of reports and reporting to the municipal council.

OTHER REPORTS

Investigations

37. An investigation was completed to probe the compliance with the conditions attached to the bid evaluation committee approval in respect of the branding of Paarl for the FIFA 2009 Confederations Cup and the 2010 Soccer World Cup. The outcome of the investigation resulted in irregular expenditure as disclosed in note 43 to the financial statements.

Auditor General

Cape Town

30 November 2011

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence